MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016 / 2017 SESSION

DAU5028 – AUDITING 2

(For Diploma Students Only)

17 OCTOBER 2016
2.30 p.m – 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **5** pages only with 5 questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

PART A

Samuel Coopers & Associates is one of the ten well-known medium size audit firm in Malaysia. En. Daud, the managing partner of the firm claims that the audit fee charges should be higher compared to the rest of the small and medium size audit firms in Malaysia. He said "Our firm is well-known with more than 30 years of experience and our auditors have skills and are competent as the top accounting firms in Malaysia."

Required:

a. Do you agree with En. Daud's claim about the audit fee and why? **(3 Marks)**

b. State **FOUR (4)** matters that an audit firm needs to consider to determine the audit fees. **(4 Marks)**

PART B

The following are situations that may violate the MIA By-Laws. In each case, assume that the auditor is a partner.

a. Dave an auditor, receives a letter from Inland Revenue Board (IRB) demanding for the audit working papers from year 2014 to 2016 of one of its client, Semarak Bersama Berhad for tax investigations. Dave was unable to contact the Director of the Semarak Bersama Berhad as he is in an oversea business trip for a week. Dave decides to hand over the audit working papers to IRB officer with an email notification to the client attached together with the letter from IRB.

b. Sue works as a receptionist in an audit firm. She made some suggestions to Lawrance, the audit partner of the firm that the advertisement should include phrase "Professionals in providing the most affordable and competent assurance services by the greatest audit firm in Malaysia." Lawrance was delighted and agreed to have it published to attract potential audit client into the firm.

Required:

Discuss whether the facts in any of the above situations indicate violations of the MIA By-Laws. If so, identify the nature of the violations.

(Note: You may use the table format as presented below to write your answer)

Continued...

Violation of MIA-By Laws (Yes / No)	Explanation
(a)	
(b)	

(6 Marks)

PART C

a. List the **FIVE (5)** fundamental principles that form the code of ethics in MIA By-Laws. **(5 Marks)**

b. Define the reason why independence is important to an auditor. **(2 Marks)**

[TOTAL 20 MARKS]

QUESTION 2

PART A

Zack is an external auditor for Tellco Communication Berhad. Every year before he begins the audit, he will query the management for any related party relationship and related party transactions. He also examines the secretarial files and identify any significant transactions in management reports.

Required:

a. In on your opinion, do auditors need to gather information about related party transactions every year? Provide reason for your answer. **(2 Marks)**

b. What are the **FOUR (4)** reasons for the importance of auditor's awareness on related party transactions? **(4 Marks)**

PART B

"When issuing an unqualified auditor's report, auditor should not refer to the work of an expert."

Required:

a. Explain the reason for the above statement. **(1 mark)**

Continued...

b. List the **THREE (3)** considerations an auditor need to consider when they evaluate the expert's finding. **(3 marks)**

PART C

List and explain **TWO (2)** types of confirmation sent for account receivable verification. **(10 Marks)**

[TOTAL 20 MARKS]

QUESTION 3

a. Explain any **FOUR (4)** major functions performed in purchasing cycle. **(8 Marks)**

b. i. "Duties should be assigned so that no individual can control all phases of processing a transaction in a way that permits errors or fraud to go undetected."

List and explain the key segregation of duties and its possible errors or fraud arising from conflicts of duties in the purchasing cycle. **(8 Marks)**

(Note: You may use the table format as presented below to write your answer)

Segregation of duties	Possible errors or fraud resulting from conflicts of duties

ii. Define the purpose of conducting analytical procedures in auditing trade payables. **(4 Marks)**

[TOTAL 20 MARKS]

QUESTION 4

PART A

a. Identify the suitable audit objective for each of the audit procedure to test transaction in purchasing cycle as shown in the table next page:

Continued...

Audit objective	Procedure for tests of transaction
i.	Tracing of a sample of vouchers to the purchases journal.
ii.	Re-compute the mathematical accuracy of a sample of supplier's invoice.
iii.	Test a sample of purchase requisition for proper authorisation.
iv.	Test transactions near year-end to determine if they are recorded in the proper period.

(4 Marks)

b. Briefly explain the **THREE (3)** inherent risks an auditor should take under consideration in auditing property, plant and equipment. **(6 Marks)**

PART B

You are assigned to audit a schedule of property, plant and equipment prepared by the accountant of Gaps Manufacturing Sdn. Bhd. The schedule includes additional, disposals and written off of fixed assets during the financial year ended 31 July 2016.

Required:

Describe the audit procedures that you may perform to test each of the following audit objectives:

i. Ownership/Rights and obligations

ii. Classification

iii. Depreciation

iv. Disclosure

v. Impairment **(10 Marks)**

[TOTAL 20 MARKS]

Continued...

QUESTION 5

a. Explain the analytical procedures commonly used by an auditor to test prepaid expenses such as insurance expense. **(4 Marks)**

b. "While auditing, auditors gather sufficient appropriate evidence on prepaid expenses by performing substantive analytical procedure."

Required:

Identify any **ONE (1) situation** whereby auditors need to perform substantive test of account balance for prepaid expenses. **(1 Mark)**

c. List the **THREE (3)** supporting documents that auditors need to obtain to conduct an audit on cash and bank balances of the company. **(3 Marks)**

d. "When there is any change to share capital, auditors need to identify the changes and perform necessary audit procedure."

Required:

State the necessarily audit procedures to test the changes in share capital. **(8 Marks)**

e. Explain the appropriate audit procedure on test of share capital account balance in achieving the following audit objectives as shown in the table. **(4 Marks)**

(Note: You may use the table format as presented below to write your answer)

Audit Assertion	Audit procedure
i. Authorisation	
ii. Valuation	

[TOTAL 20 MARKS]

End of Page.